

U10B00
Maryland Environmental Service

Operating Budget Data

(\$ in Thousands)

	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Change FY 11-12</u>
Total Assets	\$77,472	\$76,985	\$80,210	\$3,225
Total Liabilities	61,541	60,475	61,481	\$1,006
Total Net Assets	\$15,931	\$16,510	\$18,729	\$2,219
Total Revenue	\$119,336	\$108,762	\$105,904	-\$2,858
Total Expenditures	114,333	106,535	103,193	-3,342
Operating Income	\$5,003	\$2,227	\$2,711	\$484

Note: Fiscal 2010 revenue has increased from \$118.8 million to \$119.3 million to reflect the inclusion of grants under total revenue.

- Between fiscal 2011 and 2012, the operating income of the Maryland Environmental Service (MES) increased by \$484,000 for all operations excluding the Midshore Regional Landfill Private Purpose Trust Fund.
- Revenues and expenditures decreased between fiscal 2011 and 2012 primarily due to the end of several large environmental dredging and restoration projects funded by the Maryland Port Administration pass-through federal funds and U.S. Department of Transportation – Maritime Administration federal funds.
- In fiscal 2012, MES paid the State \$452,630 in unearned revenue from operating reimbursable projects under budget.
- MES considers its undesignated unrestricted net assets to be its fund balance. Undesignated unrestricted net assets increased by \$81,000 between fiscal 2011 and 2012 to \$3,801,000.

Note: Numbers may not sum to total due to rounding.

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Analysis of the FY 2014 Maryland Executive Budget, 2013

Personnel Data

	<u>FY 12</u> <u>Actual</u>	<u>FY 13</u> <u>Working</u>	<u>FY 14</u> <u>Allowance</u>	<u>FY 13-14</u> <u>Change</u>
Regular Positions	701.90	758.30	707.40	-50.90
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	701.90	758.30	707.40	-50.90

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	146.00	0.00%
Positions and Percentage Vacant as of 12/31/12	1.75%	0.00%

- Regular positions decrease by 50.9 in the fiscal 2014 allowance. This reflects an estimate of project activity since MES hires based on the projects that it takes on.

Analysis in Brief

Major Trends

Corporate and State National Pollutant Discharge Elimination System Violations Decrease: The number of National Pollutant Discharge Elimination System violations continues to decrease as a result of capital improvements, treatment plant fine tuning, and the dropping of certain contract operations with substantial numbers of violations.

Used Oil Recycling Declines: The amount of used oil recycled has decreased due to an increase in the resale value of used oil and thus increased interest by county governments.

Worker Safety Still High: MES continues to maintain a high level of worker safety, which may be attributed to a mobile safety program and the Building Excellence and Success Together program that provides incentives to all employees if the agency's safety goals and objectives are met for the year.

Issues

Project Reserve Fund Exceeds Statutory Cap: The General Assembly was concerned about MES and the Department of Budget and Management participating in a financial agreement outside the scope of legislative oversight, allowing MES to retain excess payment for State reimbursable projects. Therefore, the General Assembly created specific project reserve funds with caps via Chapter 397 of 2011 (the Budget Reconciliation and Financing Act of 2011). The

December 31, 2012 fund balances are as follows: State Reimbursable Contingency Fund – \$1,005,779; Eastern Correctional Institution (ECI) Steam Turbine Contingency Fund – \$795,649; and Department of Natural Resources Project Contingency Fund – \$7,914. **The Department of Legislative Services (DLS) recommends that MES revert to the State general fund the \$5,779 in the State Reimbursable Contingency Fund that is above the statutory cap.**

Anaerobic Digester Project Cost May Increase: For the December 7, 2011 Board of Public Works meeting, MES brought an item that proposed to lease Department of Public Safety and Correctional Services land at ECI to a private company, ECOCORP Inc., for 30 years in order to allow for the construction and operation of a thermophilic anaerobic digestion facility that would sell electricity back to the State. The power purchase agreement may need to be changed from \$.13 per kilowatt (kWh) to \$.16 per kWh. Permitting is continuing apace. MES and ECOCORP, Inc. are working on connections to the power grid, several financial institutions have been contacted about funding the facility, and a couple of project milestones have been passed. **DLS recommends that MES comment on the reason for the possible increase in the energy cost; how much is budgeted now for electricity versus the cost under the proposed power purchase agreement rate; the anticipated cost of connecting the co-generation facility to the proposed anaerobic digestion facility; and the overall advisability of the project given that electricity could cost twice the market rate.**

Recommended Actions

1. Nonbudgeted.

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Maryland Environmental Service

Operating Budget Analysis

Program Description

The Maryland Environmental Service (MES) was created as a unit within the Department of Natural Resources (DNR) in 1970 to provide water supply, wastewater treatment, and waste management services to State agencies, local governments, and private entities. During the 1993 session, the General Assembly adopted legislation that created MES as an instrumentality of the State and a public corporation independent of DNR. The organization's primary goals are to improve the environment, work more safely, and provide excellent customer service and satisfaction. MES provides technical services including engineering, design, financing, construction, and operation of water supply and wastewater treatment facilities. MES also provides similar services in the area of hazardous and solid waste facility management, including sanitary landfills, incinerators, and resource recovery facilities. Additional services offered include sludge and dredged materials management, recycling and marketing of end products, regulatory monitoring, and renewable energy needs servicing. As of June 30, 2012, MES operated and maintained 734 projects, of which 261 were State-owned facilities, such as the Poplar Island Environmental Restoration Project, the Hart-Miller Island Dredged Material Containment Facility, Cox Creek Dredged Material Containment Facility, and a regional yard debris composting facility.

MES operates on a fee-for-service basis. Operating funds are generated from six sources: State agency contracts, local government contracts, federal government contracts, private contracts, MES enterprises, and grants. In addition, MES receives State general obligation bond appropriations for capital improvements at State-owned facilities and may issue revenue bonds to finance local government projects. Revenues from State agency contracts derive from the operation and maintenance of State-owned water and wastewater treatment plants and from specific projects and services such as environmental cleanup or recycling program management. Revenues from local governments, the federal government, and the private sector derive from the operation and maintenance of water and wastewater treatment facilities and solid waste management services. MES enterprise revenues are generated by efforts such as yard waste composting and waste oil recovery.

Three goals guide MES's activities:

- improve the environment;
- work more safely; and
- provide excellent customer service and satisfaction.

MES's mission and vision statements follow.

Mission Statement: To provide operational and technical services to protect and enhance the environment for the people of Maryland.

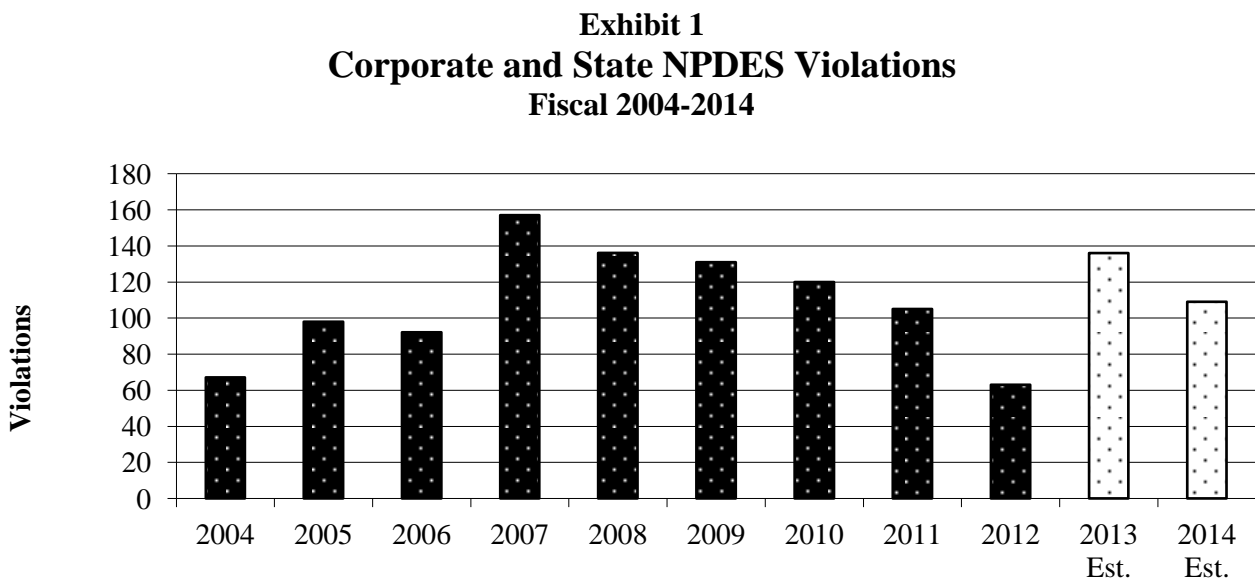
Vision Statement: An innovative and leading edge solver of environmental problems, a responsible and successful manager of environmental operations, and a great place to work.

Performance Analysis: Managing for Results

The MES performance measures reflected in this analysis reflect two of MES's three goals: improve the environment through MES's activities and work more safely.

1. Corporate and State National Pollutant Discharge Elimination System Violations Decrease

MES's first goal is to improve the environment through MES's activities. One output for this goal is the number of corporate and State National Pollutant Discharge Elimination System (NPDES) violations. **Exhibit 1** shows that the number of NPDES violations has decreased steadily from 157 in fiscal 2007 to 63 in fiscal 2012. Future year estimates project a higher level of violations. MES has noted in the past that the number of NPDES violations is due to both increasing stringency in water quality standards and the fact that MES is operating more plants; therefore, the potential exists for more NPDES violations.



NPDES: National Pollutant Discharge Elimination System

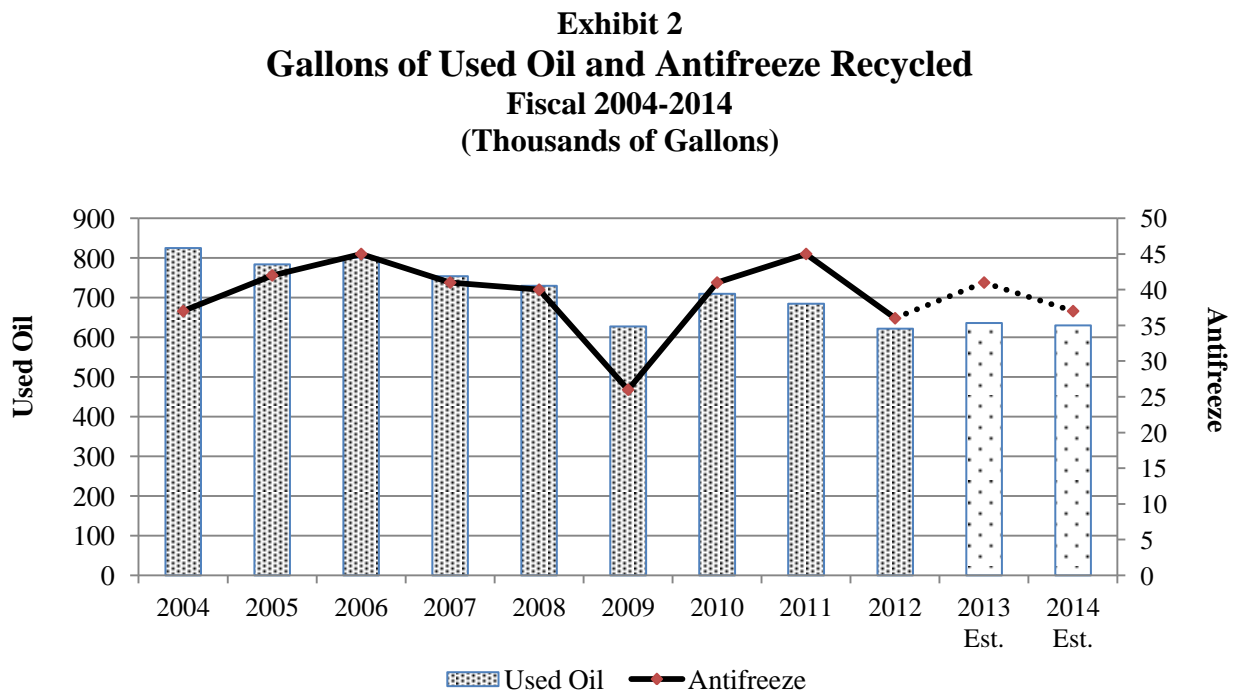
Source: Governor's Budget Books, Fiscal 2007-2014

MES indicates that over the past six years, State facilities have accounted for an average of 16% of the total violations. The reason for this low percentage of violations at State facilities is MES's ability to use State funding to make improvements at State treatment facilities. In contrast, MES is dependent upon its corporate clients, including small municipalities, to fund improvements, which they may not always have the resources to do so.

In general, MES indicates that there are three reasons for the decrease in NPDES violations: new facilities have been fine tuned and are, thus, no longer in violation; capital improvements have been made to treatment facilities or collection systems such that the inflow and infiltration of rainwater has been reduced; and in a couple of locations, MES has ceased contract operations where there were a substantial number of violations. **The Department of Legislative Services (DLS) recommends that MES comment on what MES's role is when one of its corporate clients has a substantial number of NPDES violations.**

2. Used Oil Recycling Declines

A second output under MES's goal of improving the environment is to recycle used oil and antifreeze. There has been a steady decline in the amount of used oil recycled between fiscal 2004 and the 2014 estimate as shown in **Exhibit 2**. The gallons of used antifreeze recycled has fluctuated more randomly over the same time period.



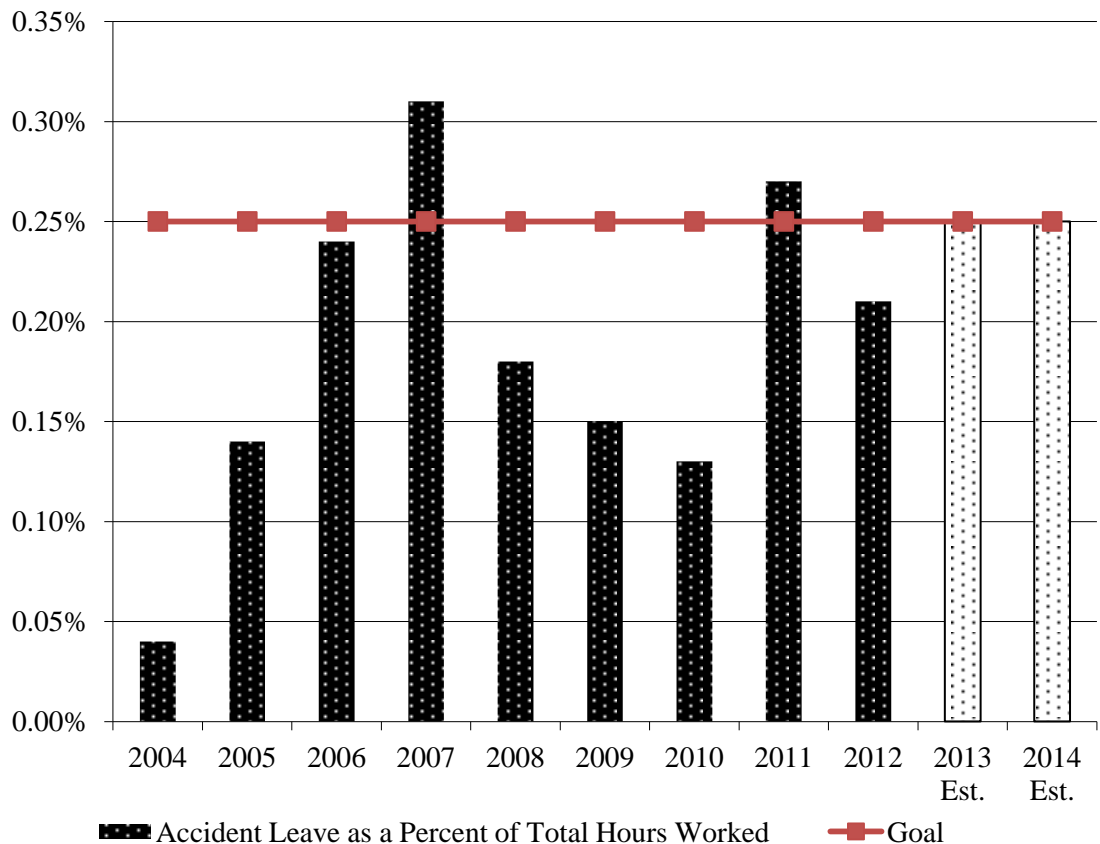
Source: Governor's Budget Books, Fiscal 2007-2014

MES indicates that there has been a steady increase in the price of used oil; the price has risen from \$0.37 per gallon in calendar 2005 to nearly \$1.00 per gallon in calendar 2012. As a result of the price increase, Anne Arundel, Carroll, Howard, and Montgomery counties have pulled out of MES's oil recycling program in order to run their own programs. In response, MES has modified its marketing program to advertise that not only does it collect used oil at no cost, but it also supplies the tanks, provides rain shelter, maintains the site, provides clean-up for spills, and provides protection for liability. This marketing campaign has been directed to other State agencies and has led to work with the State Highway Administration and Maryland State Police. In terms of the fluctuations for used recycled antifreeze, MES indicates that antifreeze recycling is more sporadic than that of oil and that marine antifreeze products are nontoxic now and generally not collected. **DLS recommends that MES comment on how it approaches situations in which market forces drive whether the State and corporate clients use its services.**

3. Worker Safety Still High

Another MES goal is to work more safely. One outcome related to this goal is accident leave as a percent of total hours worked, which is derived by dividing the total number of accident leave hours by the total billable hours for MES. MES's goal for this measure is to have accident leave be less than 0.25% of total hours worked, or less than one accident for every 400 hours worked. By this standard, MES met its goal in fiscal 2012 after missing it in fiscal 2011, as shown in **Exhibit 3**. MES tracks, investigates, and analyzes all safety incidents as well as accidents; provides monthly training at each work location on specific relevant topics; conducts quarterly safety meetings and communicates extensively to all employees about safety related issues MES also has a BEST Program (Building Excellence and Success Together) that provides incentives to all employees if the agency's safety goals and objectives are met for the year. **DLS recommends that MES comment on the workplace safety improvements suggested by employees.**

Exhibit 3
Accident Leave as a Percent of Total Hours Worked vs.
Total Authorized Positions
Fiscal 2004-2014



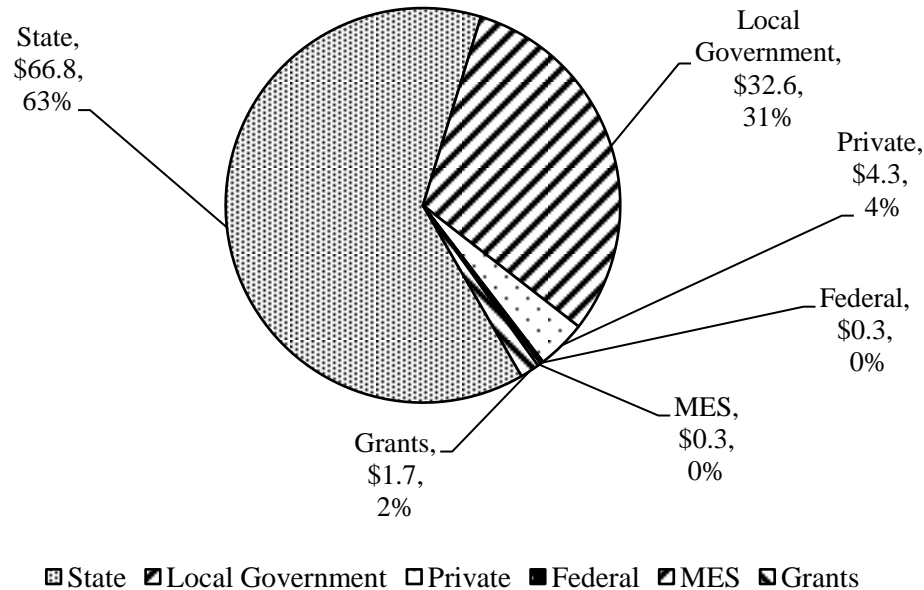
Note: Fiscal 2014 estimates for accident leave as a percent of hours worked are for less than 0.25%.

Source: Governor's Budget Books, Fiscal 2007-2014

MES's Fiscal 2012 Financial Position

MES breaks down its revenue by fund sources and type of business activity. **Exhibit 4** provides an overview of fiscal 2012 revenue by fund source and shows that approximately 94% of MES's revenue comes from State and local government. In terms of its relationship with the State, MES has two arrangements: (1) reimbursable projects are related to Executive Order 01.01.1971.11

Exhibit 4
MES Revenue by Fund Source
Fiscal 2012
(\$ in Millions)



MES: Maryland Environmental Service

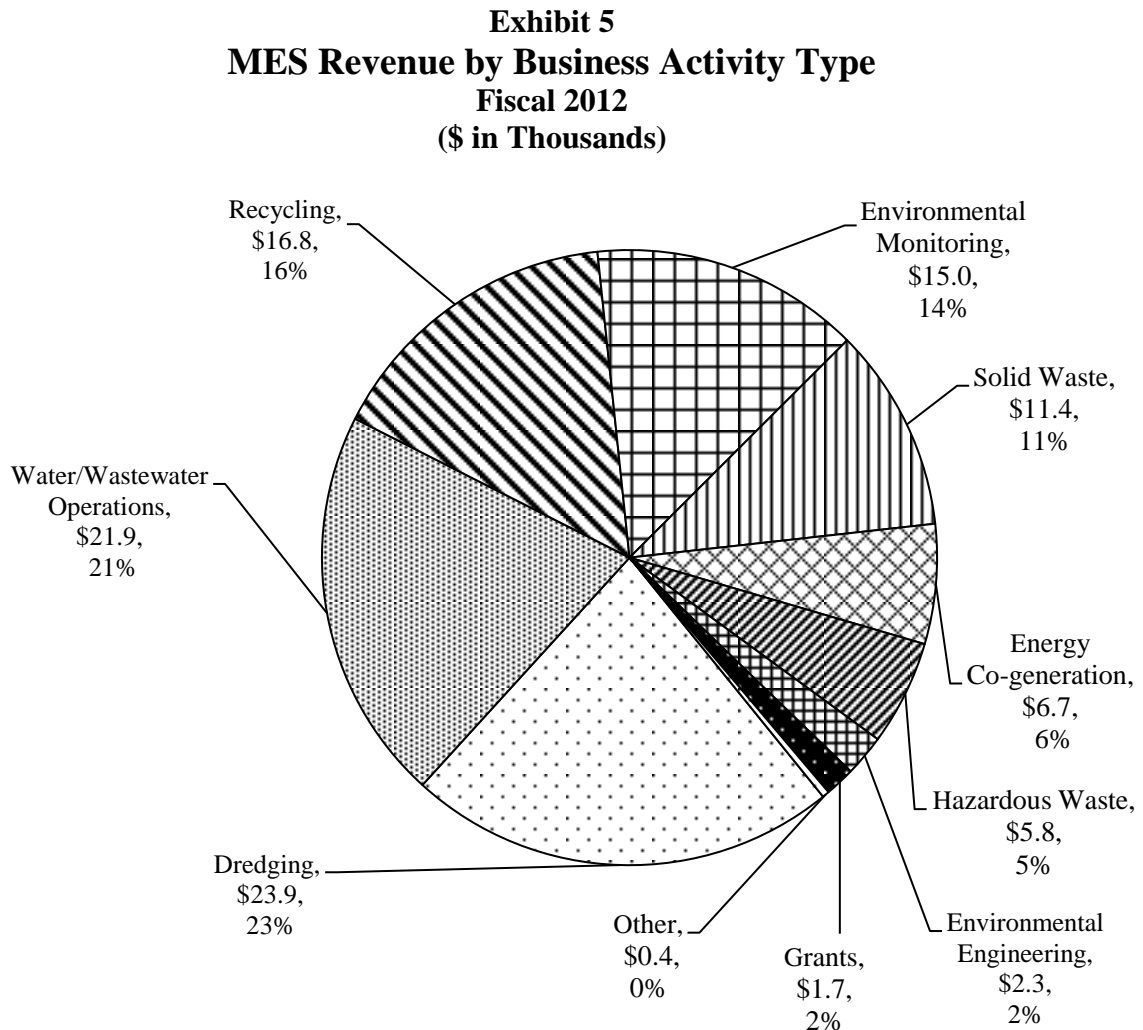
Source: Maryland Environmental Service

and the Board of Public Works (BPW) directive that MES operate wastewater and drinking water plants for State agencies; and (2) contractual projects for which MES has a contract with a State agency to do the work.

MES was under budget for fiscal 2012: the fiscal 2012 legislative appropriation for reimbursable projects was \$20,271,230 while its fiscal 2012 actual expenditures were \$19,371,435. This difference of \$899,795 reflects the amount MES was overpaid. However, MES indicates that it actually was \$1,273,968 under budget and that the actual should have been adjusted to reflect this amount, although MES indicates that it refunded the correct amount to the State. The \$1,273,968 was handled as follows:

- **Eastern Correctional Institution (ECI) Contingency Fund Allocation** – \$300,000;
- **DNR Special Funds Refunded** – \$521,338; and
- **State General Funds Refunded** – \$452,630 (for all the reimbursable projects other than DNR).

Exhibit 5 provides an overview of fiscal 2012 revenue by business activity type and shows that the largest two categories are dredging and water/wastewater operations. These two business activity types account for 44% of MES's revenue. In recent years, MES has entered the market for energy efficiency and renewable energy.



MES: Maryland Environmental Service

Source: Maryland Environmental Service

Financial Changes

MES's operating income increased by \$484,000 between fiscal 2011 and 2012. MES's revenues decreased by \$2.9 million between fiscal 2011 and 2012, primarily due to a \$4.1 million decline in environmental dredging and restoration projects revenue and a \$3.1 million drop in grants. Losses were offset by revenue gains from recycling and solid waste management. The largest

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expense change was a decrease of \$5.4 million for land, structures, and equipment. Revenue, by business type activity, is shown in **Exhibit 6**; and expenses by object are shown in **Exhibit 7**.

Exhibit 6
Revenues by Business Type Activity
Fiscal 2008-2012
(\$ in Thousands)

<u>Business Type Activity</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Change 2010-2011</u>	<u>Change 2011-2012</u>
Environmental Dredging and Restoration	\$47,601	\$27,440	\$41,573	\$28,063	\$23,924	-\$13,510	-\$4,139
Hazardous Waste Treatment	9,547	5,580	6,978	5,034	5,846	-1,944	812
Recycling	17,071	16,622	14,533	15,225	16,817	692	1,592
Water/Wastewater Operations	24,330	25,420	25,727	21,825	21,920	-3,902	95
Environmental Monitoring	7,960	13,906	13,757	16,758	15,015	3,001	-1,743
Energy Co-generation	6,083	6,536	6,117	6,371	6,666	254	295
Environmental Engineering	959	162	287	2,170	2,303	1,883	133
Solid Waste Management	9,265	9,748	9,495	8,379	11,363	-1,116	2,984
Grants	0	1,821	581	4,717	1,666	4,136	-3,051
Other	320	321	288	220	384	-68	164
Total Revenues by Business Type Activity	\$123,136	\$107,556	\$119,336	\$108,762	\$105,904	-\$10,574	-\$2,858

Note: Numbers reflect restatements to account for the sale of the scrap tire recycling facility. Beginning in fiscal 2010, grants were reflected as part of operating revenue in Maryland Environmental Service's financial statements. Prior years were adjusted to reflect this change.

Source: Maryland Environmental Service

Exhibit 7
Operating Expenses
Fiscal 2008-2012
(\$ in Thousands)

<u>Operating Expense</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Change 2010-2011</u>	<u>Change 2011-2012</u>
Land, Structures, and Equipment	\$34,942	\$10,359	\$22,855	\$10,387	\$4,950	-\$12,468	-\$5,437
Contractual Services	18,285	18,636	17,775	19,715	22,108	1,940	2,393
Salaries and Benefits	34,818	37,185	38,671	38,466	40,270	-205	1,804
Technical Fees	6,523	8,824	9,372	6,764	5,901	-2,608	-863
Other	918	594	1,041	497	502	-544	5
General and Administrative	9,598	10,998	9,152	12,283	11,928	3,131	-355
Utilities	2,453	5,175	5,096	4,439	4,205	-657	-234
Depreciation	1,145	1,161	1,193	1,646	1,702	453	56
Materials and Supplies	8,025	6,197	5,633	6,262	6,898	629	636
Repairs and Maintenance	3,571	3,596	3,545	6,076	4,729	2,531	-1,347
Total Operating Expenses	\$120,278	\$102,725	\$114,333	\$106,535	\$103,193	-\$7,798	-\$3,342

Note: Numbers reflect restatements to account for the sale of the scrap tire recycling facility.

Source: Maryland Environmental Service

Over the time period shown, a substantial increase in the amount of environmental monitoring revenues can be seen – an increase from \$8.0 million in fiscal 2008 to \$15.0 million in fiscal 2012, or 89%. The primary reason for this increase is the expansion of MES's information technology (IT) services, and in particular, MES's geographic information system mapping work. MES now provides IT and geographic information system services to various State transportation agencies, Maryland Energy Administration, the Department of General Services, Maryland Department of the Environment, Maryland Emergency Management Agency, Maryland State Archives, DNR, the Department of Business and Economic Development, the Department of Housing and Community Development, and the Governor's Office.

Types of MES Operations

MES's business type activities can be viewed generally as fee-for-service, but more specifically, as net revenue generating activities and cost recovery activities. Revenue generating

activities can be further divided into products and services. Before the sale of the scrap tire recycling facility in January 2008, MES sold recycled crumb rubber products. Now, MES only produces a product called Leafgro. Leafgro is compost made from grass clippings and leaves that is produced under the contract MES has to operate composting facilities for Montgomery and Prince George's counties; thus, the two counties receive the revenues from sales. However, MES continues to perform at least two revenue generating services: yard waste grinding and waste oil collection. Therefore, the number of MES's revenue generating activities is fewer than in previous years, which means that ideally revenues for the cost recovery projects equal expenses.

Proposed Budget

The proposed budget discussion focuses on the State reimbursable projects portion of MES's budget. As shown in **Exhibit 8**, MES's reimbursable project charges to State agencies decreased by 7.0% between fiscal 2012 and 2013 and increase by 1.8% between fiscal 2013 and 2014. The largest increase between fiscal 2013 and 2014 is for the Department of Public Safety and Correctional Services (DPSCS) – ECI. MES notes that it was required to reduce State reimbursable project operating expenses 10.0%, or \$2.0 million, for fiscal 2013.

Exhibit 9 shows that the primary increase in expenditures by object between fiscal 2013 and 2014 is \$341,230 for salaries, wages, and fringe benefits. Salaries, wages, and fringe benefits increase for State reimbursable projects despite a decrease in MES's overall authorized position count between fiscal 2013 and 2014 from 758.3 to 707.4 because the lost positions were mostly connected to State contractual projects and not State reimbursable projects. MES notes that there will be additional savings realized in fiscal 2014 because MES reduced the overhead rate by 2% for fiscal 2014 after it submitted its budget request.

Exhibit 8
Reimbursable Projects
Fiscal 2014 Allowance Data

<u>Facilities</u>	<u>Allocation 2012</u>	<u>Allocation 2013</u>	<u>Allowance 2014</u>	<u>\$ Change 2012-2013</u>	<u>\$ Change 2013-2014</u>	<u>% Change 2012-2013</u>	<u>% Change 2013-2014</u>
Maryland Veterans' Home Commission	\$358,179	\$360,311	\$407,150	\$2,132	\$46,839	0.6%	13.0%
DJS – Victor Cullen Center	280,116	270,385	298,615	-9,731	28,230	-3.5%	10.4%
DHMH – Crownsville Hospital Center	592,257	336,787	367,912	-255,470	31,125	-43.1%	9.2%
University of Maryland Center for Environmental Studies – Horn Point	56,661	51,773	56,540	-4,888	4,767	-8.6%	9.2%
DPSCS – Eastern Correctional Institution	1,798,589	1,823,531	1,947,256	24,942	123,725	1.4%	6.8%
DPSCS – Maryland Correctional Institution – Hagerstown	1,646,236	1,579,494	1,648,020	-66,742	68,526	-4.1%	4.3%
DHMH – Rosewood Center	27,054	9,028	9,404	-18,026	376	-66.6%	4.2%
St. Mary's College of Maryland	74,869	66,987	69,216	-7,882	2,229	-10.5%	3.3%
DPSCS – Maryland Correctional Pre-Release System	1,901,459	1,775,859	1,832,570	-125,600	56,711	-6.6%	3.2%
Maryland Aviation Administration	21,587	23,109	23,683	1,522	574	7.1%	2.5%
DPSCS – Maryland Correctional Institute of Women – Jessup	307,214	276,034	282,036	-31,180	6,002	-10.1%	2.2%
DPSCS – Patuxent Institution	642,356	577,162	589,711	-65,194	12,549	-10.1%	2.2%
DPSCS – Maryland Correctional Institution – Jessup	754,070	677,538	692,269	-76,532	14,731	-10.1%	2.2%
DHMH – Clifton T. Perkins Hospital Center	251,357	225,846	230,756	-25,511	4,910	-10.1%	2.2%
DPSCS – Western Correctional Institution	128,842	116,693	118,799	-12,149	2,106	-9.4%	1.8%
DPSCS – Eastern Correctional Institution Co- Generation Facility	6,420,527	6,161,876	6,263,164	-258,651	101,288	-4.0%	1.6%
Military Department	143,802	135,551	137,639	-8,251	2,088	-5.7%	1.5%

<u>Facilities</u>	<u>Allocation 2012</u>	<u>Allocation 2013</u>	<u>Allowance 2014</u>	<u>\$ Change 2012-2013</u>	<u>\$ Change 2013-2014</u>	<u>% Change 2012-2013</u>	<u>%t Change 2013-2014</u>
DJS – Boys’ Village of Maryland and RICA Cheltenham	420,916	397,812	400,778	-23,104	2,966	-5.5%	0.7%
DJS – Juvenile Services Administration Youth Centers	366,900	356,808	357,037	-10,092	229	-2.8%	0.1%
DNR – Fisheries Service	49,785	49,833	49,694	48	-139	0.1%	-0.3%
DJS – O’Farrell Center	51,673	25,992	25,719	-25,681	-273	-49.7%	-1.1%
DNR – Public Lands	3,146,963	2,757,004	2,668,998	-389,959	-88,006	-12.4%	-3.2%
DHMH – Springfield Hospital Center	829,818	798,090	719,149	-31,728	-78,941	-3.8%	-9.9%
Total	\$20,271,230	\$18,853,503	\$19,196,115	-\$1,417,727	\$342,612	-7.0%	1.8%

DHMH: Department of Health and Mental Hygiene

DJS: Department of Juvenile Services

DNR: Department of Natural Resources

DPSCS: Department of Public Safety and Correctional Services

RICA: Regional Institutes for Children and Adolescents

Note: The fiscal 2012 allocation reflects the original appropriation; the numbers have not been adjusted to reflect the final expenditures.

Source: Governor’s Budget Books, Fiscal 2014

Exhibit 9
Reimbursable Projects Funding Schedule
Fiscal 2012-2014

<u>Operating Expense</u>	<u>Expenditures</u> <u>2012</u>	<u>Legislative</u> <u>Appropriation</u> <u>2013</u>	<u>Allowance</u> <u>2014</u>	<u>Change</u> <u>2012-2013</u>	<u>Change</u> <u>2013-2014</u>
Salaries, Wages, and Fringe Benefits	\$7,893,009	\$8,394,729	\$8,735,959	\$501,720	\$341,230
Technical and Special Fees	366,625	394,944	457,283	28,319	62,339
Land and Structures	3,710,875	3,168,488	3,224,420	-542,387	55,932
Contractual Services	1,546,091	1,224,687	1,251,265	-321,404	26,578
Motor Vehicle Operation and Maintenance	414,065	385,885	399,064	-28,180	13,179
Equipment – Replacement	37,082	9,250	13,800	-27,832	4,550
Equipment – Additional	80,023	14,250	17,500	-65,773	3,250
Fixed Charges	238	900	900	662	0
Communication	89,770	90,070	88,935	300	-1,135
Travel	19,469	9,555	4,030	-9,914	-5,525
Fuel and Utilities	3,266,228	3,462,734	3,390,197	196,506	-72,537
Supplies and Materials	1,947,960	1,698,011	1,612,762	-249,949	-85,249
Total Operating Expenses	\$19,371,435	\$18,853,503	\$19,196,115	-\$517,932	\$342,612

Source: Maryland Environmental Service

Issues

1. Project Reserve Fund Exceeds Statutory Cap

The General Assembly was concerned about MES and the Department of Budget and Management participating in a financial agreement outside the scope of legislative oversight, allowing MES to retain excess payment for State reimbursable projects. While MES had the authority to create project reserve funds by Natural Resources Article § 3-103(h), the General Assembly preferred that the amount of funding allocated to these funds from excess payment for State agency reimbursable projects be statutorily capped. Therefore, the General Assembly created specific project reserve funds with caps via Chapter 397 of 2011 (the Budget Reconciliation and Financing Act of 2011). **Exhibit 10** reflects the recent project reserve fund history. MES notes that it put \$300,000 in the ECI Steam Turbine Contingency Fund between June 30, 2012, and December 31, 2012, and that the approximately \$6,000 in excess of the State Reimbursable Fund Contingency Fund cap is earned interest. **DLS recommends that MES revert to the State general fund the \$5,779 in the State Reimbursable Contingency Fund that is above the statutory cap.**

Exhibit 10
Project Reserve Fund Status
June 30, 2012 and December 31, 2012

<u>Project Reserve Fund</u>	<u>June 30, 2012</u>	<u>December 31, 2012</u>	<u>Cap</u>
State Reimbursable Contingency Fund	\$1,003,015	\$1,005,779	\$1,000,000
ECI Steam Turbine Contingency Fund	494,900	795,649	1,500,000
DNR Project Contingency Fund	137,067	7,914	500,000

DNR: Department of Natural Resources

ECI: Eastern Correctional Institution

Source: Maryland Environmental Service

2. Anaerobic Digester Project Cost May Increase

For the December 7, 2011 BPW meeting, MES brought an item that proposed to lease DPSCS land at ECI to a private company, ECOCORP, Inc., for 30 years in order to allow for the construction and operation of a thermophilic anaerobic digestion facility that would sell electricity back to the State.

Background

ECI is a DPSCS facility located in Somerset County. MES provides wastewater services to ECI as well as provides electricity. The electricity is generated by a co-generation facility that burns wood chips for both electricity and heat generation.

MES – Energy Generation Projects (Chapter 183 of 2009) authorized MES to engage in additional types of energy projects and services, such as the production, generation, or distribution of energy; the undertaking of energy conservation measures; and engaging in research and development studies. As such, MES is authorized to act as a State agency assisting in the deployment of electricity generation facilities in suitable areas. MES is expected to cooperate with private entities to develop generation facilities rather than acting alone to build these plants.

Power Purchase Agreement

On October 28, 2010, MES signed a power purchase agreement with a private company, ECOCORP, Inc., for the provision of electricity to ECI from the proposed development of a thermophilic anaerobic digestion facility of up to one megawatt capacity to be built and operated at the sole risk of ECOCORP, Inc., on land to be leased to ECOCORP, Inc. at ECI. ECOCORP, Inc. was selected through a competitive solicitation process to provide the renewable energy from poultry litter. The agreement stipulates that ECI will purchase the electricity at a cost of \$.13 per kilowatt hour with a yearly escalation factor of 2%. At present, the wood chip burning co-generation facility provides two-thirds of ECI's electricity and the remaining one-third is purchased from Delmarva Power. The contract with ECOCORP would replace most of the electricity purchased from Delmarva Power.

MES Update

MES indicates that the following progress been made on the project.

- ***Power Purchase Agreement*** – MES and ECOCORP, Inc. are considering amendments to the agreement, including a possible energy cost increase from \$130 per megawatt hour (MWh) to \$160 per MWh, or from \$.13 per kWh to \$.16 per kWh. If agreed upon, the electricity would cost twice the market rate.
- ***Permitting*** – ECOCORP, Inc. has received several final permits and approvals and is working on a stormwater management plan and the historical considerations raised by the Maryland Historical Trust.
- ***Design and Interconnection*** – MES and ECOCORP, Inc. are working through the water, electrical, and logistical needs for the site. MES anticipates holding a meeting with Delmarva Power and ECOCORP, Inc. in the coming months about connection with the power grid.

- ***Financing/Budgetary Needs*** – ECOCORPS, Inc. has contacted several financial institutions about funding the facility. MES anticipates potentially costly upgrades to the existing co-generation facility in order to connect it to the proposed anaerobic digester unit and is anticipating the need to identify funds to complete these upgrades.
- ***ECOCORPS, Inc. Actions*** – ECOCORPS, Inc. has ordered the combined heat and power system engine, executed contracts for the poultry litter and crop residue feedstock supply, executed contracts for the sale of the solid and liquid bio-fertilizers in April 2012, selected the supplier and installer of the concrete digester in March 2012, and submitted 60% construction drawings detailing key system component designs for MES review.

DLS recommends that MES comment on the reason for the possible increase in the energy cost; how much is budgeted now for electricity versus the cost under the proposed power purchase agreement rate; the anticipated cost of connecting the co-generation facility to the proposed anaerobic digestion facility; and the overall advisability of the project given that electricity could cost twice the market rate.

Recommended Actions

1. Nonbudgeted.

Audit Findings

Audit Period for Last Audit:	May 6, 2009 – December 8, 2011
Issue Date:	July 2012
Number of Findings:	0
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

The audit did not disclose any findings.

**Object/Fund Difference Report
Maryland Environmental Service**

<u>Object/Fund</u>	<u>FY 12 Actual</u>	<u>FY 13 Working Appropriation</u>	<u>FY 14 Allowance</u>	<u>FY 13 - FY 14 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	701.90	758.30	707.40	-50.90	-6.7%
Total Positions	701.90	758.30	707.40	-50.90	-6.7%
Objects					
01 Salaries and Wages	\$ 39,850,086	\$ 39,800,000	\$ 40,921,000	\$ 1,121,000	2.8%
02 Technical and Spec. Fees	6,930,504	8,414,000	10,139,000	1,725,000	20.5%
03 Communication	513,782	480,000	478,800	-1,200	-0.3%
04 Travel	334,922	255,000	255,000	0	0%
06 Fuel and Utilities	4,330,737	5,210,000	4,973,200	-236,800	-4.5%
07 Motor Vehicles	4,980,551	6,450,000	5,200,000	-1,250,000	-19.4%
08 Contractual Services	23,506,245	21,200,000	21,200,000	0	0%
09 Supplies and Materials	7,107,128	6,600,000	6,600,000	0	0%
10 Equipment – Replacement	750,912	2,500,000	940,000	-1,560,000	-62.4%
11 Equipment – Additional	1,516,300	1,100,000	1,250,000	150,000	13.6%
13 Fixed Charges	4,554,281	6,000,000	4,200,000	-1,800,000	-30.0%
14 Land and Structures	6,020,580	16,300,000	7,000,000	-9,300,000	-57.1%
Total Objects	\$ 100,396,028	\$ 114,309,000	\$ 103,157,000	-\$ 11,152,000	-9.8%
Funds					
07 Nonbudgeted Fund	\$ 100,396,028	\$ 114,309,000	\$ 103,157,000	-\$ 11,152,000	-9.8%
Total Funds	\$ 100,396,028	\$ 114,309,000	\$ 103,157,000	-\$ 11,152,000	-9.8%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.